

Department of Transportation

**For the Year Ended
June 30, 2000**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
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John G. Morgan
Comptroller

March 27, 2001

The Honorable Don Sundquist, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
The Honorable J. Bruce Saltsman, Sr., Commissioner
Department of Transportation
Suite 700, James K. Polk Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Transportation for the year ended June 30, 2000.

We conducted our audit in accordance with generally accepted auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Transportation's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Transportation is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal control and/or instances of noncompliance to the Department of Transportation's management in a separate letter.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/eb
00/094

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Transportation
For the Year Ended June 30, 2000

AUDIT SCOPE

We have audited the Department of Transportation for the period July 1, 1999, through June 30, 2000. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 2000, and to the Tennessee Single Audit Report for the same period. These areas include the Federal-Aid Highway Administration program. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of Overweight and Overdimensional Permits, Bridge Maintenance and Inspection, and Information Systems Review. The audit was conducted in accordance with generally accepted auditing standards. In addition, we have summarized information from an Internal Audit Report on the Governor's Highway Safety Office.

AUDIT FINDINGS

Departmental Policies and Procedures to Ensure Compliance With Davis-Bacon Not Always Followed**

The department has established policies and procedures to help ensure compliance with the Davis-Bacon Act. However, department personnel do not always adhere to these policies and procedures. Interviews with laborers and mechanics to help ensure contractors' wage compliance were not always conducted (page 9).

Improper Administration, Direction, Supervision, and Monitoring of Subrecipient Operations

On November 8, 2000, the Department of Transportation Internal Audit Office issued a *Special Report: Governor's Highway Safety*

Office. As described in Findings 1 through 6, 8, and 10 of the special report, the Governor's Highway Safety Office did not properly administer, direct, supervise, or monitor many aspects of the operations of its subrecipients (page 10).

GHSO Operated an Unauthorized Departmental Bank Account and Made Improper Payments From the Account

On November 8, 2000, the Department of Transportation Internal Audit Office issued a *Special Report: Governor's Highway Safety Office*. As described in Finding 9 of the report, the Governor's Highway Safety Office (GHSO) established an unauthorized departmental bank account which was not adequately

controlled, and the GHSO could not provide supporting documentation for all transactions in the account (page 12).

Surety Bond for Overweight and Overdimensional Permits Not Required*

The department does not ensure that potential Overweight and Overdimensional Permit holders provide a surety bond or furnish satisfactory proof of solvency as required by *Tennessee Code Annotated*, Section 55-7-205(g) (page 13).

Inspections of Bridges and Other Structures Are Not Always in Accordance With Departmental Procedures*

The department has established policies and procedures for inspecting bridges and other structures. However, department personnel do

not always adhere to these policies and procedures. The proper inspection was not always performed, and inspections were not always performed timely (page 15).

DOT STARS Disaster Recovery Documentation Is Inadequate*

The disaster recovery plan and the documented results of mock disaster testing for the Department of Transportation State Transportation Accounting and Reporting System are insufficient (page 19).

* This finding is repeated from the prior audit.

** This finding is repeated from previous audits.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Department of Transportation
For the Year Ended June 30, 2000

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**Department of Transportation
For the Year Ended June 30, 2000**

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Transportation. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

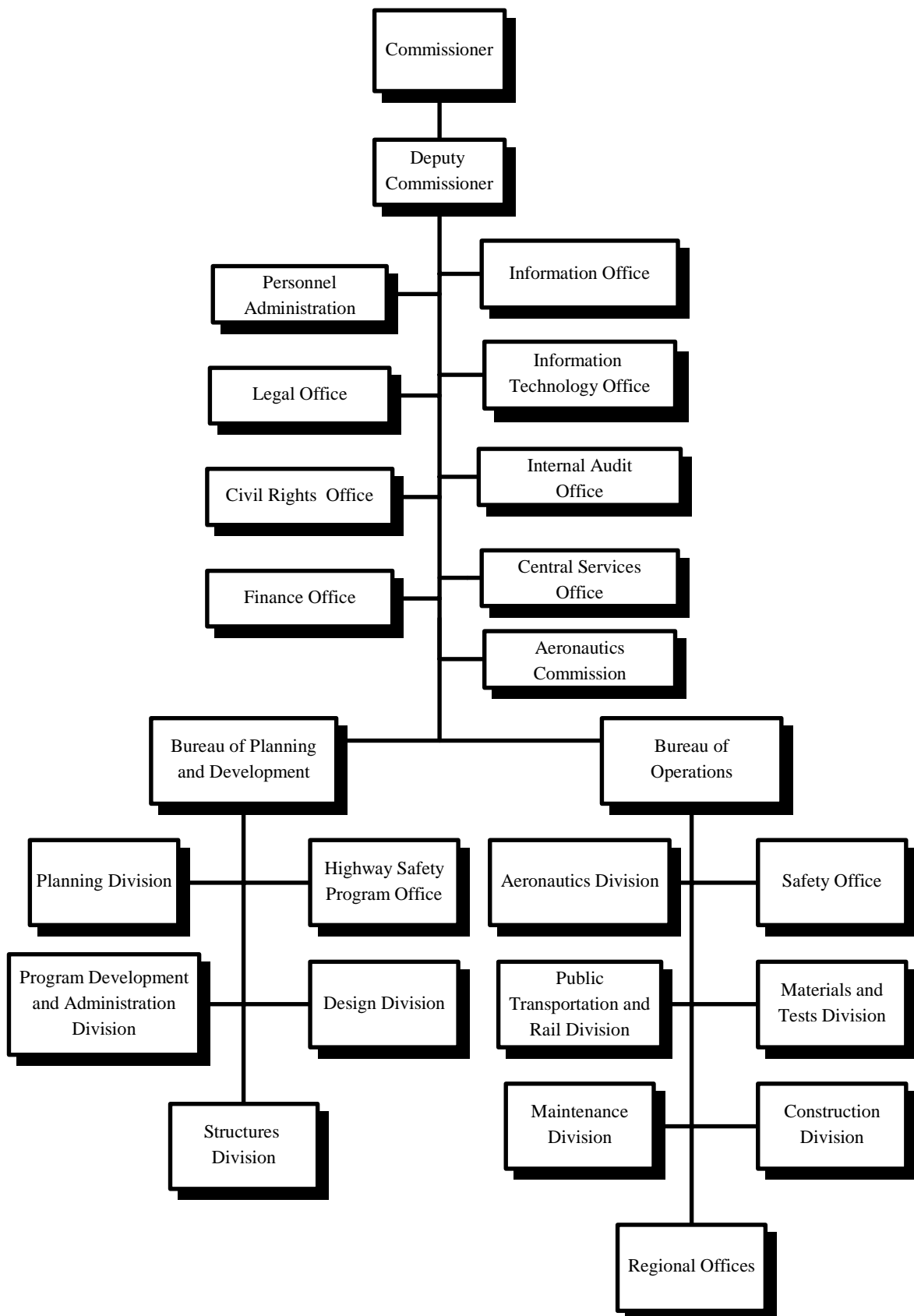
The mission of the Department of Transportation is to plan, implement, maintain, and manage an integrated transportation system for moving people and products, with emphasis on quality, safety, efficiency, and the environment. In order to fulfill this mission, the department is organized into two bureaus. The Bureau of Planning and Development administers all phases of transportation programs from planning to the advertising of highway contracts. The Bureau of Operations is responsible for awarding contracts, constructing and maintaining state highways, and administering field work.

Along with its roadway activities, other duties which fall to these two bureaus include planning and developing rail transportation, providing aerial photography and mapping services, maintaining and operating state-owned aircraft, issuing permits for overdimensional vehicles, funding and assisting publicly owned airports, and controlling outdoor advertising on state highways. The department also provides maintenance on the state’s general vehicle fleet and technical and funding assistance to over 300 public transportation agencies.

In recent years, one of the primary goals of the department has been to complete the substantial road program passed by the state legislature in 1986. The program is nearly 78% complete.

With 5,000 employees and a budget over one billion dollars, the department is one of the largest agencies in state government. An organization chart of the department is on the following page.

Department of Transportation Organization Chart



AUDIT SCOPE

We have audited the Department of Transportation for the period July 1, 1999, through June 30, 2000. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 2000, and to the Tennessee Single Audit Report for the same period. These areas include the Federal-Aid Highway Administration program. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of Overweight and Overdimensional Permits, Bridge Maintenance and Inspection, and Information Systems Review. The audit was conducted in accordance with generally accepted auditing standards. In addition, we have summarized information from an Internal Audit Report on the Governor's Highway Safety Office.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Transportation filed its report with the Department of Audit on August 29, 2000. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Transportation has corrected the previous audit findings from special investigations concerning management's failure to enforce surplus equipment disposal procedures and allowing improper use of state property for work on non-state vehicles; weaknesses in internal controls allowing the misappropriation of state property to go undetected; the need to make improvements in documentation of decisions for supplemental agreements and incentive bonuses; the need to make improvements in the Railroad Crossing Safety program; improper manipulation of contracts to obtain computer-programming services; and improper manipulation of contracts to obtain computer equipment. In addition, the department has also corrected the previous audit findings concerning the lack of written policies and procedures relating to the Transportation Equity Fund, and the need to improve computer administrative and security controls.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning the failure to require surety bonds for overweight and overdimensional permits, the failure to inspect bridges and other structures in accordance with departmental procedures, and inadequate documentation of the Department of Transportation State Transportation Accounting and Reporting System disaster recovery. These findings have not been resolved and are repeated in the applicable sections of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

AREAS RELATED TO TENNESSEE'S COMPREHENSIVE ANNUAL FINANCIAL REPORT AND SINGLE AUDIT REPORT

Our audit of the Department of Transportation is an integral part of our annual audit of the Comprehensive Annual Financial Report (CAFR). The objective of the audit of the CAFR is to render an opinion on the State of Tennessee's general-purpose financial statements. As part of our audit of the CAFR, we are required to gain an understanding of the state's internal control and determine whether the state complied with laws and regulations that have a material effect on the state's general-purpose financial statements.

Our audit of the Department of Transportation is also an integral part of the Tennessee Single Audit which is conducted in accordance with the Single Audit Act, as amended by the Single Audit Act Amendments of 1996. The Single Audit Act, as amended, requires us to determine whether

- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program, and
- the state has internal control to provide reasonable assurance that it is managing its major federal award programs in compliance with applicable laws and regulations.

We determined that the Federal-Aid Highway Administration program within the Department of Transportation was material to the CAFR and to the Single Audit Report.

To address the objectives of the audit of the CAFR and the Single Audit Report, as they pertain to this major federal award program, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of transactions. For further discussion, see the Federal-Aid Highway Administration section.

We have audited the general-purpose financial statements of the State of Tennessee for the year ended June 30, 2000, and have issued our reports thereon dated November 29, 2000. The opinion on the financial statements is unqualified. The Tennessee Single Audit Report for the

year ended June 30, 2000, includes our reports on the schedule of expenditures of federal awards and on internal control and compliance with laws and regulations.

The audit of the department revealed the following finding in areas related to the CAFR and Single Audit Report:

- Employees do not always follow departmental policies and procedures to ensure compliance with the Davis-Bacon Act

In addition to the finding, other minor weaknesses came to our attention which have been reported to management in a separate letter.

FEDERAL-AID HIGHWAY ADMINISTRATION

To address the objectives of the CAFR and Single Audit, as they pertain to federal financial assistance programs, our audit focused primarily on the compliance requirements for the Federal-Aid Highway Administration (FHWA) program.

The audit consisted of the following areas:

- General Internal Control
- Activities Allowed or Unallowed and Allowable Costs/Cost Principles
- Davis-Bacon Act
- Procurement and Suspension and Debarment
- Real Property Acquisition and Relocation Assistance
- Federal Reporting
- Special Tests and Provisions: Sampling Program
- Schedule of Expenditures of Federal Awards

The primary audit objectives, methodologies, and our conclusions for each area are stated below. For each area, auditors documented, tested, and assessed management's controls to ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and reporting requirements. To determine the existence and effectiveness of management's controls, auditors administered planning and internal control questionnaires; reviewed policies, procedures, and grant requirements; prepared internal control memos, performed walk-throughs, and performed tests of controls; and assessed risk.

General Internal Control

Our primary objective for general control was to obtain an understanding of, document, and assess management's general controls within the department. We interviewed key program employees; reviewed organization charts, descriptions of duties and responsibilities for each division, program procedures and guidelines, and the reports issued by the department's internal audit staff; and considered the overall control environment of the FHWA program.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

The primary objectives of this area were to determine if

- funds were used for allowable purposes;
- federal expenditures were in compliance with grant requirements;
- expenditures involving federal funds have been recorded correctly in the department's accounting records; and
- costs meet the criteria set forth in the "Basic Guidelines" of Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment A, paragraph C.

Supporting documentation for all significant FHWA expenditure items was reviewed and tested to determine if the funds were used for allowable purposes and to determine if costs were in compliance with Circular A-87. The significant items were also tested for compliance with grant requirements and appropriate recording in the department's accounting records.

Our testwork indicated that the department's FHWA funds were used for allowable activities, expenditures were in compliance with grant requirements, expenditures were recorded correctly in the department's accounting records, and costs were in compliance with Circular A-87.

Davis-Bacon Act

The primary objective of this area was to determine if the department ensured that laborers and mechanics on applicable construction contracts were paid the prevailing wage rates as determined by the U.S. Department of Labor.

To monitor compliance with the Davis-Bacon Act, the department has established a system which includes review of contractor and subcontractor payrolls and documented on-site visits and interviews with laborers and mechanics by department personnel.

We tested a sample of closed construction contracts for evidence of departmental monitoring for compliance with the Davis-Bacon Act. We reviewed evidence such as contractor and subcontractor payrolls and documentation of on-site visits and labor interviews.

Our testwork revealed that the department did not always conduct the labor interviews in accordance with its policy. This deficiency is disclosed in finding 1.

Procurement and Suspension and Debarment

The primary objective of this area was to determine that the department did not enter into contracts with vendors that have been suspended or debarred from federal contracts.

We compared all vendors from the significant FHWA expenditures to the *List of Parties Excluded From Federal Procurement or Nonprocurement Programs*, issued by the General Services Administration, to determine if the vendors were suspended or debarred.

None of the vendors from the significant FHWA expenditures were listed on the *List of Parties Excluded From Federal Procurement or Nonprocurement Programs* as suspended or debarred.

Real Property Acquisition and Relocation Assistance

The primary objective of this area was to determine compliance with the Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA) of 1970, as amended. The URA provides for uniform and equitable treatment of persons displaced by federally assisted programs from their homes, businesses, or farms and establishes procedures to determine just compensation to the owner.

We reviewed the departmental policies and procedures developed to ensure compliance with the URA. We tested a sample of FHWA payments made for real property acquisition or relocation assistance for compliance with the URA. We compared the documentation on file supporting the payment to the documentation required for each unique type of payment.

Based upon the testwork performed, it appears that the department's policies and procedures are in compliance with the URA and that the department is complying with its policies and procedures.

Federal Reporting

The primary objective of this area was to determine if the required report for federal awards included all activity of the reporting period, was supported by the applicable accounting records, and was presented in accordance with program requirements.

In the FHWA program, the only required report is the PR-20, *Voucher for Work Under Provisions of the Federal-Aid and Federal Highway Acts, as Amended*. Within the department,

this report is referred to as the “current bill.” The department generates this report within the Department of Transportation (DOT) State Transportation Accounting and Reporting System (STARS) and submits it electronically each week. The report includes detailed financial activity for all authorized FHWA projects.

We reviewed the department’s procedure for establishing projects within DOT STARS. We tested FHWA significant items for appropriate recording in the department’s accounting records (DOT STARS). We reviewed controls and procedures relating to DOT STARS as described in the Information Systems Review section of this report. We reviewed the process for reconciling DOT STARS with the Department of Finance and Administration’s accounting system (STARS) supporting the state’s financial statements. We reviewed the process for reconciling DOT STARS with the federal system for authorized projects.

Based on our review and testwork, the required report appears to include all activity of the reporting period, is supported by the department’s accounting records, and is presented in accordance with program requirements.

Special Tests and Provisions: Sampling Program

The FHWA program requires a sampling and testing program for projects to ensure that materials and workmanship generally conform to approved plans and specifications. The primary objective of this area was to determine whether the state is following a quality assurance program that meets FHWA requirements.

We reviewed documentation in a sample of closed construction contracts to determine if materials used were sampled and tested for conformity with approved plans and specifications.

Based on our testwork, the department has a sampling and testing program in place to ensure that materials and workmanship generally conform to approved plans and specifications as required by FHWA.

Schedule of Expenditures of Federal Awards

Our objective was to verify that the Schedule of Expenditures of Federal Awards was properly prepared and adequately supported. We verified the grant identification information on the Schedule of Expenditures of Federal Awards prepared by staff in the department’s finance office. We reviewed the reconciliations of disbursements with expenditures in the accounting records on a grant-by-grant basis. Based on the testwork performed, we determined that, in all material respects, the Schedule of Expenditures of Federal Awards was properly prepared and adequately supported.

Finding, Recommendation, and Management's Comment

1. Employees do not always follow departmental policies and procedures to ensure compliance with the Davis-Bacon Act

Finding

In response to prior audit recommendations, the Department of Transportation established program policies and procedures to comply with the Davis-Bacon Act. However, as noted in previous audits, department personnel do not always adhere to these policies and procedures to monitor classifications and wage rates as required by the Davis-Bacon Act.

The Davis-Bacon Act requires laborers and mechanics employed by contractors or subcontractors on federal contracts to be paid no less than the prevailing wage rates established for that locale by the U.S. Department of Labor. To monitor compliance with this requirement, the department has established a system whereby designated personnel check contractor and subcontractor payrolls during each month of a project. Also, the project engineer or his representative is required to conduct a specific number of interviews with laborers and mechanics to verify the accuracy of payroll records examined. A separate interview form is completed and signed by the laborer or mechanic and the project engineer to document each interview. In response to the prior findings, the department issued Circular Letter 1273-03, which, as amended, requires that the project engineer conduct interviews at two-month intervals with a minimum of three interviews every two months, or a minimum of two interviews on contracts not anticipated to last two months. These interviews provide evidence of on-site visits to monitor classifications and wage rates.

A review of labor interview forms indicated that the project engineers had not always conducted a sufficient number of interviews. For one of 25 closed contracts tested (4%), no labor interviews were conducted during the entire duration of the contract. Since this contract was four months in duration, at least six interviews should have been conducted according to the department's policies. Failure to conduct interviews decreases the department's assurance that contractor and subcontractor payroll records reflect compliance with the Act.

Recommendation

Management should always perform labor interviews as evidence of on-site visits to monitor classifications and wage rates. Procedures should be implemented to ensure that the department complies with the Davis-Bacon Act.

Management's Comment

We concur. We will continue to work to bring our offices into compliance. Headquarter's Construction Division will issue a memo to all regions detailing the problems encountered with the employee interviews.

GOVERNOR'S HIGHWAY SAFETY OFFICE—INTERNAL AUDIT REPORT

The Department of Transportation's Internal Audit Office has issued the *Special Report: Governor's Highway Safety Office* to report conclusions on allegations of improper activities within the Governor's Highway Safety Office (GHSO). The Director of the GHSO resigned on November 1, 2000. As part of that investigation, certain problems relating to the operations of that office were identified by the Internal Audit Office and are repeated in the following findings.

Findings, Recommendations, and Management's Comments

2. Improper administration, direction, supervision, and monitoring of subrecipient operations

Finding

On November 8, 2000, the Department of Transportation Internal Audit Office issued a *Special Report: Governor's Highway Safety Office*. As described in Findings 1 through 6, 8, and 10 of the special report, the Governor's Highway Safety Office (GHSO) did not properly administer, direct, supervise, or monitor many aspects of the operations of its subrecipients.

According to Finding 1 of the Internal Audit Report, the procedures the GHSO used to select subrecipients were not adequately documented. In addition, employees of a potential subrecipient were allowed to participate on the subgrant evaluation team; all supporting documentation for the evaluation process was not maintained; and all applicants were not required to follow the same application procedures.

The Internal Auditor reviewed all of the grant agreements with subrecipients and, as stated in Finding 2, determined that the subrecipient, grant purpose, or grant budget was sometimes questionable; many of the agreements did not have all of the contract language required by the Department of Finance and Administration; and not all of the agreements were properly executed before the grant recipients were reimbursed for grant expenditures. Finding 3 of the Internal Audit Report indicates that the GHSO had "intradepartmental contracts" with other divisions in the Department of Transportation, a practice which is not provided for in the department's Delegated Grant Authority, issued by the Department of Finance and Administration.

Also in Finding 3, the Internal Auditor reported that the GHSO billed its subrecipients for travel and other similar costs incurred by the GHSO, possibly exceeding the federal grantor's 10% limitation on administrative expenditures. In addition, the GHSO used employees of a

subrecipient to work in the GHSO and report directly to GHSO staff. This arrangement circumvents the normal approval process required to staff state offices; shifts the burden of administrative expenses associated with these employees to the GHSO instead of to the subrecipient where these costs were budgeted; and, most significantly, creates an employer-employee relationship between the department and these individuals. GHSO personnel were involved in both the hiring of the subrecipient's employees assigned to the GHSO office, and in the day-to-day oversight of the subrecipient employee's job performance.

The Internal Audit Report indicates in Finding 4 that the awards to subrecipients were not always timely, making it potentially difficult for the subrecipients to maximize the available funding. In addition, the GHSO did not require its subrecipients to promptly file reimbursement requests with the GHSO.

The Internal Auditor reviewed the expenditure files for all subrecipients and, as stated in Finding 5, determined that the GHSO had reimbursed questionable subrecipient expenditures. In addition, the Internal Auditor noted subrecipient purchasing procedures and GHSO payment methods that were questionable. Finding 10 of the Internal Audit Report identifies an unallowable \$5,000 subrecipient expenditure to a GHSO employee's child to develop a GHSO web site. Finding 6 of the Internal Audit Report indicates that travel expenditures claimed by the subrecipients were not always reasonable; the GHSO inappropriately billed travel costs directly rather than reimbursing employees in accordance with the Department of Finance and Administration's *State Comprehensive Travel Regulations*; certain subrecipients paid for travel incurred by employees of other subrecipients; and the GHSO billed its subrecipients for travel incurred by GHSO employees. As a result of the review of subrecipient expenditures, the Internal Auditor identified \$12,221.43 in questioned costs. These questioned costs are detailed in Attachments A and B of the Internal Audit Report. In addition, the Internal Auditor also identified \$2,030.56 in travel costs charged to inappropriate grants which are detailed in Attachment E of the Internal Audit Report.

Also in Finding 6, the Internal Auditor indicates that the initial travel budget for one subrecipient was increased by \$8,500 for travel of individuals "as deemed necessary by the Director of the GHSO." Consequently, GHSO charged out-of-state travel to this subrecipient, effectively circumventing the Department of Transportation's budget process for out-of-state travel as well as the Department of Finance and Administration's approval process for out-of-state travel.

Monitoring of subrecipients was not adequately performed as reported in Finding 8 of the Internal Audit Report. Monitoring the programmatic and financial operations of subrecipients is an important and required phase of the federal grant program. According to the Internal Audit Report, one GHSO monitor stated that the office performs three site visits per subrecipient each year and documents these visits with written reports. However, the monitor could not provide any reports to the Internal Auditor.

Recommendation

Management of the Department of Transportation should ensure that the problems identified in the *Special Report: Governor's Highway Safety Office* are promptly and thoroughly addressed and corrected. The department's senior management should carefully observe the GHSO to ensure that subrecipient operations are properly administered, directed, supervised, and monitored.

Management's Comment

We concur. The problems identified in the *Special Report: Governor's Highway Safety Office* are being addressed and corrected. Management has established an Oversight Committee to work with the new director to address current issues and review overall grant and office procedures.

3. GHSO operated an unauthorized departmental bank account and made improper payments from the account

Finding

On November 8, 2000, the Department of Transportation Internal Audit Office issued a *Special Report: Governor's Highway Safety Office*. As described in Finding 9 of the report, the Governor's Highway Safety Office (GHSO) established a bank account that functioned like a departmental bank account, but the account was not necessary and was never properly authorized as a departmental bank account in accordance with the Department of Finance and Administration Policy 7. Fees for conferences conducted by the GHSO were deposited into the bank account.

In addition, the Internal Audit report indicates that the bank account was not adequately controlled, and the GHSO could not provide supporting documentation for all transactions in the account. Based on the invoices that were available, the Internal Auditor determined that payments from the account were not always appropriate. Since the activities of the GHSO are primarily funded by federal funds from the State and Community Highway Safety Program and the funds in this account meet the definition of program income, the lack of adequate controls and the inappropriate use of the funds are in violation of the department's grant agreement. As a result, the Internal Auditor identified \$12,261.09 in questioned costs from the bank account. These questioned costs are detailed in Attachments C and D of the Internal Audit Report.

Recommendation

The GHSO should not maintain an unauthorized departmental bank account. If management of the department determines that a departmental bank account for the GHSO is warranted, management should ensure that the departmental bank account is properly authorized and that adequate accounting records and internal controls over the account are established and

maintained. The department should ensure that all program income of the State and Community Highway Safety Program is appropriately used to offset costs of the program.

Management's Comment

We concur. The unauthorized bank account has been closed. The Department's director of GHSO is working with NHTSA to determine proper disposition of the funds. If an account is warranted in the future, management will ensure that it is properly authorized, established and maintained.

OVERWEIGHT AND OVERDIMENSIONAL PERMITS

The Department of Transportation issues permits for moving overweight and overdimensional vehicles on Tennessee highways. In the interest of public safety and the preservation of highways, these permits are necessary for the transportation of oversize, overweight, or overlength articles or commodities that cannot be reasonably dismantled or conveniently transported otherwise.

The objective of our review of the Overweight and Overdimensional Permit Section was to follow up on the status of the prior finding, specifically, to determine if applicants requesting permits for overweight and overdimensional movement on Tennessee highways are required to provide a surety bond or proof of solvency before obtaining a permit. Our follow-up review indicated that the issue has not been resolved, as noted in finding 4.

Finding, Recommendation, and Management's Comment

4. The Department of Transportation does not require a surety bond for overweight and overdimensional permits

Finding

As noted in the prior audit report, applicants requesting permits for moving vehicles of excess weight or size on Tennessee highways are not required to provide a surety bond or proof of solvency before obtaining a permit. Section 55-7-205, *Tennessee Code Annotated*, stipulates the requirements for issuing permits for overweight and overdimensional vehicles. Subsection (g) states

Rules and regulations so prescribed by the commissioner shall require, as a condition of the issuance of such permits, that an applicant shall agree to and give bond with surety (unless an applicant shall by sworn statement furnish satisfactory proof of the applicant's own solvency to the authority

issuing the permit) to indemnify the state and/or counties thereof, against damage to roads, or bridges, resulting from the use thereof by the applicant.

In the prior audit report, management stated that the department is seeking legal interpretation of *Tennessee Code Annotated*, Section 55-7-2-5(g). Management also stated that the department is researching whether a valid insurance certificate could be substituted for the proof of solvency and the surety bond. No resolution to these issues has been obtained.

The overweight and overdimensional permit application process does not include procedures requiring the potential permit holder to provide a surety bond or proof of solvency. A surety bond or proof of solvency gives the state added assurance that the permit holder will be able to cover the cost of damage to Tennessee roads or bridges caused by the permit holder. Without a surety bond or proof of solvency, the state might be unable to recover the cost of repairs from the permit holder.

Recommendation

The Overweight and Overdimensional Permit Section should develop written policies and procedures to require that potential overweight and overdimensional permit holders provide a surety bond or furnish satisfactory proof of solvency in compliance with *Tennessee Code Annotated*, Section 55-7-205(g). These policies and procedures should be incorporated into the application process to ensure that permits are not issued until the surety bond or satisfactory proof of solvency is provided. Management should take appropriate measures to monitor operations for compliance with the policies and procedures.

Management's Comment

We concur. The Department agrees with the audit finding requiring a bond or proof of solvency in the interpretation of *Tennessee Code Annotated*, Section 55-7-205(g). However, as we understand the interpretation, we feel the intent of the law is different. This code is currently under review by the 102nd General Assembly. We will conclude our comments in the follow-up responses after the completion of the review.

BRIDGE MAINTENANCE AND INSPECTION

The bridge maintenance and inspection section of the Department of Transportation performs routine inspections on all bridges and other structures. The objectives of our review of the controls and procedures for the bridge maintenance and inspection section were to determine whether

- policies and procedures regarding bridge maintenance and inspections for structures that are greater than 20 feet in length are adequate and based on current National Bridge Inspection Standards from the Code of Federal Regulations,
- policies and procedures regarding bridge maintenance and inspections for structures that are less than 20 feet in length are adequate and based on the Department of Transportation's policies and procedures manual,
- personnel in charge of organizational units and bridge inspection teams are properly qualified, and
- effective monitoring and management of a National Bridge Inspection program is occurring.

We interviewed key department personnel to gain an understanding of the department's controls and procedures over bridge maintenance and inspection. We also reviewed supporting documentation for these controls and procedures. In addition, testwork was performed on a sample of inspections to determine if the individuals in charge of bridge inspection teams were properly qualified and if the bridges and other structures were inspected in accordance with departmental procedures.

We determined that the Department of Transportation does not always inspect bridges and other structures in accordance with departmental procedures as discussed in finding 5.

Finding, Recommendation, and Management's Comment

5. The Department of Transportation does not always inspect bridges and other structures in accordance with departmental procedures

Finding

As noted in the prior audit report, the bridge maintenance and inspection section of the Department of Transportation performs inspections on all bridges and other structures. However, the department does not always comply with its inspection procedures documented in *The Tennessee Department of Transportation Bridge Inspection Program Procedures Manual*. In the prior audit report, management stated that the department is reviewing options such as digital storage for better management of bridge inspection data. However, another option has not been adopted.

Structures (bridges) greater than 20 feet

Based on a sample of inspections of structures (bridges) greater than 20 feet, the following discrepancies were noted.

- The appropriate type of inspection was not performed for 2 of 25 bridges examined (8%). “Routine Inspections” were performed when “Full In-Depth Inspections” should have been performed. The Tennessee Department of Transportation Bridge Inspection Program Procedures Manual for structures (bridges) greater than 20 feet states, “Routine Inspections are not to exceed two cycles before performing another Full In-Depth Inspection regardless of structure material or condition.” The standard inspection cycle is 24 months.
- Twelve of 25 bridges (48%) were not inspected within the required time period of 22 to 27 months. The manual states, “. . . the time period between inspections shall not be less than 22 months or greater than 27 months. This standard shall apply to Routine or In-Depth Inspections for all bridges that have been placed on a standard 24 month inspection cycle.”

In addition, the department could not provide evidence that 4 of 18 individuals in charge of bridge inspection teams (22%) completed a comprehensive training course. The National Bridge Inspection Standards, Appendix C, Section 650.307(b)(2), states, “An individual in charge of a bridge inspection team shall . . . have a minimum of 5 years experience in bridge inspection assignments in a responsible capacity and have completed a comprehensive training course based on the Bridge Inspector’s Training Manual.”

Structures less than 20 feet

Based on a sample of inspections of structures less than 20 feet, the following discrepancies were noted.

- The department’s staff was unable to locate 12 of 25 short inspection reports (48%) so it could not be determined if the appropriate type of inspection was conducted and adequately documented within the required time period.
- Ten of 13 structures examined (77%) were not inspected within the required period of 24 months. The *Tennessee Department of Transportation Bridge Inspection Program Procedures Manual* requires structures less than 20 feet in length to be inspected on a two-year inspection cycle.
- A log is not maintained for standard short inspection forms in the Bridge Inspection and Repair office. Therefore, the auditor could not determine whether the standard short inspection forms had been sent to the Bridge Inspection and Repair office within 60 days of the inspection. The *Tennessee Department of Transportation Bridge Inspection Program Procedures Manual* states that the standard short inspection forms are to be sent to the Bridge Inspection and Repair office within 60 days of the inspection. The manual also requires the standard short inspection forms to be logged by the appropriate Transportation Assistant once received.

Recommendation

Management should ensure that adequate supporting documentation is maintained to provide evidence of all inspections. In addition, management should develop monitoring procedures to ensure the appropriate type of bridge inspections are completed, inspections are performed within the required time period, and that individuals in charge of bridge inspection teams have completed a comprehensive training course and have met all other applicable requirements for inspectors. Also, the Bridge Inspection and Repair office should log the standard short inspection forms once received.

Management's Comment

We concur. Our bridge inspection procedures are based upon three sources: 1) the National Bridge Inspection Standards (NBIS), 2) the American Association of State Highway and Transportation Officials (AASHTO) Manual for Condition Evaluation of Bridges, and 3) the Tennessee Department of Transportation (TDOT) Bridge Inspection Program Procedures Manual. The findings do not attempt to differentiate between the requirements given in these sources, and therefore, we will give a summary of the actions to be taken.

- First, the TDOT Bridge Inspection Headquarter's Office will issue a memorandum to our bridge inspection field teams reminding them that no more than two routine inspections in a row can be performed upon a bridge in good or fair condition, and bridges in poor or critical condition always require a full inspection.
- Second, a monthly report is being generated from the Tennessee Roadway Information Management System (TRIMS) of all past due inspections. This report looks at all dates rather than a small sampling that may be too small to be statistically significant.
- Third, TDOT held the comprehensive bridge inspectors training course in February 1999 and again in September 2000. Currently, all of our inspection team leaders have been through the course.
- Fourth, the section of our Procedures Manual dealing with small structures of less than 20 feet in length has been completely rewritten since the audit was conducted. Records for these small structures have been entered into the TRIMS system. Headquarters can now track the inspection cycle for these small structures.

INFORMATION SYSTEMS REVIEW

The objectives of our review of the controls and procedures for the Information Systems Review Section were

- to assist in gaining and documenting an understanding of the components of the information systems internal control;
- to determine if relevant policies and procedures have been placed in operation;
- to determine the effectiveness of selected control procedures identified as placed in operation;
- to determine if controls are in place to ensure that data received for processing are properly authorized and have not been lost, suppressed, added to, duplicated, or otherwise changed; and
- procedures exist to recover processing capabilities if an accident or malfunction should occur.

We communicated with internal audit to identify any work performed that may relate to critical systems and identify any audit concerns. Our review indicated that there had been no internal audit work related to critical systems.

Through interviews and inspection of documentation, the auditors obtained and summarized a basic understanding of the application to include purpose and major features, categories of users, and location and responsibility for data files and source and object programs. No weaknesses were noted for this review.

We reviewed the minutes of any meetings held during the audit period and found no potential actions or decisions that might affect the application under review. In addition, we reviewed the agency's three-year information systems plan and found no potential effect on the application under review.

We reviewed written information systems policies and procedures for adequacy and to determine whether they reflected current operating conditions. We found that policies and procedures appear to be adequate and that they reflect current operating conditions. In addition, we determined that there were no recent federal or other audits that could possibly impact our work.

We observed the physical conditions of the computer room and networking facilities and made an overall evaluation of conditions: physical security, fire sprinkler system, cleanliness, organization, temperature, etc. These conditions appeared to be adequate.

We inspected application documentation to determine if it includes flowcharts, record layouts or database dictionary, program narratives, list of application programs, list of data sets, program source code listings, code descriptions, user instructions, and operator run procedures. The documentation appears to be adequate to run and maintain the application successfully.

We reviewed the data input procedures to determine if they included appropriate editing routines, error handling and resubmission routines, and batch control totals or hash totals. A minor weakness came to our attention which has been reported to management in a separate letter.

We obtained a listing (extract) of employees with access to the Department of Transportation (DOT) State Transportation Accounting and Reporting System (STARS). We selected a sample of DOT STARS users from the listing and traced them to the STARS Security Request /Authorization Forms. We determined whether each user's DOT STARS Security Table Maintenance setting is appropriate and authorized. Minor weaknesses came to our attention which have been reported to management in a separate letter.

We reviewed the back-up and recovery procedures and the results of agency participation in disaster recovery tests for this application during the audit period. We found these procedures inadequate as noted in finding 6.

Finding, Recommendation, and Management's Comment

6. DOT STARS disaster recovery documentation is inadequate

Finding

As noted in the prior audit report, the disaster recovery plan and the documented results of mock disaster testing for the Department of Transportation (DOT) State Transportation Accounting and Reporting System (STARS) are insufficient. The disaster recovery plan lacked the specific information necessary to restore DOT STARS in an emergency. Some of the information was simply a set of generic guidelines for preparing a disaster recovery plan. For example, the plan states,

There should be a documented call list for people to contact if it becomes necessary to recover your application. Both home and office numbers should be included. There should be procedures for keeping this list current.

These vital details are not present in the plan. Other important information is missing from the disaster recovery plan as well. For instance, the alternative processing site is not identified, recovery teams and their job duties are not documented, and varying degrees of disaster are not addressed.

DOT STARS has consistently participated in the Office for Information Resources' (OIR's) mock disaster testing. However, the results of the most recent test are not adequately documented. The documentation provided is simply a listing of the programs that ran during the test and did not contain any evaluation, recommendations, or comments on the results of the test. Also, there is no indication that management reviewed the results.

DOT STARS is a mission-critical system that processes virtually all of Transportation's accounting data. To be properly prepared for a disaster, the department must thoroughly document its disaster recovery procedures and the results of testing those procedures. In the event of a disaster, this documentation can help ensure that Transportation's business and accounting functions are quickly restored.

In the prior audit report, management stated that the disaster recovery plan was being updated to document the contact employee's home and office phone numbers, the alternative processing site if the plan was put into effect, the recovery teams and their job duties, and procedures for varying degrees of disaster as addressed in the finding. These procedures have not yet been implemented.

Recommendation

The department should thoroughly document specific disaster recovery procedures and the results of testing those procedures. The guidelines set forth in the existing disaster recovery plan should be implemented, and other procedures necessary for a comprehensive plan should also be included. The procedures should be prioritized and should list the specific actions to be taken from the moment a disaster is declared to the time that normal business operations are resumed. Employees and vendors should be fully aware of their responsibilities regarding the plan. Management should ensure that the disaster recovery plan is periodically updated to reflect current operating conditions. Participation in OIR's mock disaster testing should be fully documented to include an evaluation of and recommendations based on the results of the tests. Both the disaster recovery plan and the results of disaster recovery testing should be reviewed and approved by senior management.

Management's Comment

We concur. Documentation of procedures for disaster recovery, and the results of testing those procedures, is being completed by the Department's Information Technology Division. Management plans to follow up to ensure that this is completed.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. The Department of Transportation filed its compliance report and implementation plan on June 30, 2000.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the commissioner of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

TITLE IX OF THE EDUCATION AMENDMENTS OF 1972

Tennessee Code Annotated, Section 4-4-123, requires each state governmental entity subject to the requirements of Title IX of the Education Amendments of 1972 to submit an annual Title IX compliance report and implementation plan to the Department of Audit by June 30, 1999, and each June 30 thereafter. The Department of Transportation has not filed its compliance report and implementation plan due June 30, 2000, or June 30, 1999, in violation of this statutory requirement.

Title IX of the Education Amendments of 1972 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no one receiving benefits under a federally funded education program and activity is discriminated against on the basis of gender. The untimely filing of the compliance report and implementation plan required by state law does not necessarily mean that the Department of Transportation is not in compliance with federal law.

APPENDIX

Department of Transportation allotment codes:

401	Transportation Headquarters
403	Bureau of Planning and Development
411	Bureau of Operations
412	Engineering Administration
414	Liability Insurance Premiums
416	Area Mass Transit
418	Field Construction Operations
419	Field Maintenance Operations
430	Equipment Administration
440	Planning and Research
451	Maintenance and Marking
453	Betterments
455	State Aid
470	State Industrial Access
471	State Construction
472	Interstate Construction
473	Primary Construction
475	Forest Highways
476	Appalachia Construction
478	Local Interstate Connectors
480	State Highway Construction
481	Capital Improvements
482	Other Construction
484	Great River Road
485	Highway Beautification
487	Metropolitan - Urban Construction
488	Bridge Replacement
489	Highway Safety Construction
494	Transportation Equity Fund